



Rural-urban linkages and financial services

Opportunity for rural poverty reduction

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Policy Brief

Rural-Urban Linkages and Financial Services: Opportunity for Rural Poverty Reduction



Introduction

A dichotomy on poverty reduction strategies is very prominent where there is a focus on rural and another focus on urban poverty. This is evident even in Tanzania poverty reduction initiatives including Tanzania Development Vision (TDV) 2025, Poverty Reduction Strategy Programme (PRSP), National Strategy for Growth and Reduction of Poverty (NSGRP) I & II, as well as the Rural Development strategy. There is a clear differentiation between urban and rural poverty with emphasis on rural poverty reduction. Little attention has been given to rural-urban linkages and their poverty reducing effects.

The term urban is often associated with cities, towns (Regional/District headquarter towns) and rural is associated with village setting. Livelihoods of the majority of the rural population is associated with agricultural production and urban (cities and towns) associated with non-agriculture livelihoods. This distinction between rural and urban necessitated government authorities in Tanzania and elsewhere in developing countries to struggle to find solutions to a critical problem of rural-urban migration, rural people migrating to cities and/or towns. This view ignores important geographical areas that transform rapidly from being rural villages to what is termed in this brief, as Emerging Urban Centers (EUC). EUC have relatively high average population growth and growth of non-agricultural economic activities and provide important poverty reducing linkages with immediate rural hinterlands.

EUCs are geographical areas that undergo rapid transformation from being rural villages to Emerging Urban Centers (EUC) they become centers of attraction where majority of residents are migrants.

This policy brief argue that "Emerging Urban Centers" (EUC) provide an opportunity for poverty reduction through rural-urban linkages and facilitating access to financial services. The linkages between EUCs and immediate rural hinterlands (villages) are facilitated through four key EUC functions. First, marketing access function, where EUCs as trading centers, both agricultural and non agricultural products are exchanged. Second, employment creation, third, social services centre and fourth, provision of financial services. This policy brief provide an understanding of these key functions of EUCs that facilitate rural urban linkages and contribute to rural as well as urban poverty reduction. This is achieved by:

- a) Analyzing linkages between rural hinterland villages and Emerging Urban Centers in Tanzania, and
- b) Providing opportunities for poverty reduction resulting from the linkages.

The empirical data on which this policy brief is based was collected between 2011 and 2013 in the four EUCs, Igowole, Ilula, Kibaigwa and Madizini in Tanzania.

EUCs are trading centers where both agricultural and non agricultural products are exchanged. They facilitate access to markets, social services, financial services and employment opportunities.

About Emerging Urban Centers

An Emerging Urban Center (EUC) “grows” spontaneously from transformation of a rural village. Some of these EUCs have acquired the status of township council authority¹. Of the four studied EUCs only Kibaigwa that have been declared in government gazette and administrative structure as township has been put in place. EUCs experienced above average population growth as well as economic investments. The initial growth is largely a result of improvements in the value chain of the main commodity in the area. The commodities include Tea, Tomato, Maize, sugarcane and Tea for Igowole, Ilula, Kibaigwa, and Madizini respectively.

EUC Functions

Marketing function

Trade center/marketing function of “Emerging Urban Centre” (EUC) creates linkages that play an important role of improving living standards of the majority of rural population.

Traders, collect agricultural products from diverse and remote small farms; they are also a major source of credit and information in rural as well as EUC this function is limited by availability of affordable transport system



Kibaigwa and Ilula are major markets for Maize and Tomato respectively. The two markets have contributed to improvement in production as well as productivity of the respective crops. Thus, Emerging Urban Centers (EUC) creates an important linkage as immediate market for agricultural products from rural areas. It is an undisputed fact that Market access contribute to rural poverty reduction for rural population dependent on agriculture production.

Residents of immediate rural hinterlands to EUCs sell agricultural products and buy consumer goods at EUC and establish non-farm economic activities in EUC.



Expansion of employment opportunities

Due to increased non-farm investments EUCs provide an important employment creation function. In EUCs there are many (e.g. one of the EUCs had 220) businesses operating from fixed premises and numerous street vendors selling various products including used clothes, food, and small electronic equipment. EUCs become employment centers that attract rural population from immediate as well as distant rural hinterlands. EUCs serve as employment destination centers for job seekers from rural areas. In this way EUCs creates positive contribution in reducing migration from rural to large cities/ towns, while at the same time improves incomes of the rural population for poverty reduction through remittances.

EUCs are markets of household consumer goods including agricultural inputs from large cities/towns. Traders (shop keepers) from rural hinterland obtain supplies for their village shops from whole sale shops in an immediate EUC. In this way rural shop keepers save travelling time as well as cash money that they would otherwise pay as transport cost to a distant trading centre (in Town or City). EUCs are also markets for agricultural goods from immediate rural hinterland. Therefore market access improve agricultural product value chains not only of major commodities (Tomato, Maize, Tea and sugarcane) but other agricultural commodities as well including new ones which otherwise were of less importance. Two of the EUCs studied comprise processing factories of major cash crops produced in the area, Sugarcane in Madizini and Tea in Igowole.



¹Local government in Tanzania is divided into urban and rural authorities. Township councils are under District (Rural) Authorities (Local Government (District) Authorities Act of 1982)

Together with non-farm employment opportunities there are also agricultural related employment opportunities especially related to the value chain of the dominant crop within the EUCs and rural hinterlands, in this case tomato, tea, maize and sugarcane for Ilula, Igowole, Kibaigwa, and Madizini respectively. Initial capital for most of the investments in the EUCs is generated from agricultural activities taking place in the rural hinterland which creates employment opportunity in rural hinterland. These linkages through creation of employment opportunities have poverty reducing effects among the rural population.

EUCs are important destinations for migrants (especially youth) from rural hinterlands and are largely involved in activities not only that support the key agricultural commodity value chains but also non-agricultural activities.



Access to social services

While marketing and employment functions develop spontaneously in EUCs, most social services including schools and health centers and dispensaries are government provisions. However, due to increasing and diversity of population in EUCs, private investments are attracted, private primary and secondary schools, dispensaries and health centers are emerging in EUCs. Generally, therefore the number and quality of such services in EUC are relatively better than in immediate and distant rural hinterlands. This creates rural urban linkage by people from rural hinterland to access such services in EUCs. This also reduces travelling time (alternatively allocated for productive activities) to regional and /or district city/town based services. Improvement in access to education and health services among rural population has poverty reducing effects.

Provision of public services is dependent on strategic planning and resource utilization within geographical area. However private or commercial services are dependent on market forces for this reason some centers emerge and later stagnate.

Financial services function

The concentration of economic activities and growth



of population in EUCs attract establishment of financial services by institutions including commercial banks, NGO based financial institutions and informal financial services. These financial services (savings and credit services) in the EUCs are benefitting both EUC residents and rural hinterland villages as well.

Savings and credit facilities contribute to diversification of livelihood opportunities in the EUC and immediate rural villages. Credit from different sources has been used to improve non-agricultural investments as well as agriculture innovations. However, limited credit has been used in establishing businesses in EUC. Most businesses are established from own savings (returns from agriculture and/or other business). In some cases however credit is used to cover running costs and/ or expansion of business. The main sources of credit are SACCOs and to a limited extent commercial banks. At the same time the number of rural people accessing savings and credit services in EUC is very limited. The majority of the rural population access savings and credit facilities through informal sources, including group saving and credit systems (NGOs based and self regulated), relatives and friends (largely based on social capital), money lenders (mostly shop keepers in EUC, whole sale shops extend credit in cash or in kind), livestock keepers and agriculture output buyers. Some of these sources charge prohibitive interest rates (as much as 100% interest over a period of < 6 months), do not encourage savings and perpetuate poverty. The most limiting factors to accessing formal credit by populations from rural hinterland include, travel distance (limited transport facilities), paper work (low level of education), and collateral (limited formally registered asset ownership).



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Marianne Nylandsted Larsen and Torben Birch-Thomsen (2014). The Role of Credit Facilities and Investment Practices in Rural Tanzania: A Comparative Study of Igowole and Ilula Emerging Urban Centres

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